Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1990

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

Department of Family Services

This report contains seventeen recommendations. Major recommendations are for the department to:

- Strengthen internal systems over:

  - residents' cash;
  - completeness and support of financial records; and
  - property, plant, and equipment.

- Comply with legislative appropriation requirements.

- Establish cash management and expenditure [illegible] procedures.

- Account for financial activity in accordance with state law.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

May 1990

The Legislative Audit Committee
of the Montana State Legislature:

The department was established by the 50th Legislature and began its operations on July 1, 1987. This is our first financial-compliance audit report on the Department of Family Services. It is for the two fiscal years ended June 30, 1989. Included in this report are seventeen recommendations for the department to strengthen internal control systems, to comply with legislative appropriation requirements, to establish cash management and expenditure recording procedures, and to account for financial activity in accordance with state law. The department's written response to the audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1989

Department of Family Services

Members of the audit staff involved in this audit were: Jody Bisom, Renee Foster, Scott Hoversland, Diane Hulst, Geralyn Huschka, Charles V. Jensen, Rich McRae, Jill Olson and Julie Quist.

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	Doug Matthies, Administrative Support Division
	Bill Unger, Superintendent of Mountain View School
	Allan Davis, Superintendent of Pine Hills School

Introduction

We performed a financial-compliance audit of the Department of Family Services for the two fiscal years ended June 30, 1989. The objectives of the audit were to:

1. Recommend improvements in the management and internal controls of the department.

2. Determine if the department complied with applicable federal and state laws and regulations.

3. Determine if Mountain View School and Pine Hills School implemented prior audit recommendations.

4. Determine if the department's financial schedules fairly present the results of operations for the audit period.

This report contains seventeen recommendations to the department. These recommendations address areas where the department can improve internal controls, accounting procedures, and compliance with laws and regulations. Many of the issues noted in the report pertain to management controls which are discussed on page 28 of the audit report. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in this report, but have been discussed with the director and his staff.

In addition to this financial-compliance audit, our office performed a performance audit on the Child Protective Services administered by the department. A separate report, #89P-29B, has been issued with the results of that audit.

Background

The Department of Family Services was created by Chapter 609, Laws of 1987. The legislature reorganized youth and aging services from the Department of Social and Rehabilitation Services and the Department of Institutions into one department.

Department services are aimed at strengthening family unity and providing an appropriate living environment for individuals.

The department provides protective services to ensure the health, welfare, and safety of children and adults who are in danger of abuse, neglect or exploitation within their communities. It provides for the care, protection, and mental and physical development of youths in need of supervision or delinquent youth who are referred or committed to the department. In addition, it provides supportive services to enable senior citizens to maintain their independence.

The department operates under four programs: management support, community services, Mountain View School (MVS), and Pine Hills School (PHS). The number of full-time equivalent employees, by program, is shown in the following table.

Full-Time Equivalent Employees

Program	Fiscal Year 1987-88	Fiscal Year 1988-89
Management Support	44	44
Community Services	327	338
Mountain View School	68	66
Pine Hills School	119	119
Total Department	558	567

Source: Office of the Legislative Fiscal Analyst Appropriations Report - 1991 Biennium

The management support program provides administrative and fiscal support for the department, as well as overall policy development and program supervision. The program consists of administration, state aging, and training functions.

The community services program provides a variety of social services to children, adults, and senior citizens. Services to children include foster care, protective day care, adoption referral and counseling, and coordination of youth court and school programs to reduce instances of delinquency. The

aftercare program provides supervision for adjudicated youth in need of supervision or for juvenile delinquents. The youth evaluation program provides 45 day evaluations of youth aged 10-19 who have been referred by the courts. Services to adults include spouse abuse counseling, services to unmarried parents, health and nutrition programs, and work incentive programs. Services to senior citizens include congregate meals, transportation, funding for senior centers, homemaker services, and legal advocacy. The program also includes administration of federal supplemental security income payments to eligible recipients.

MVS and PHS programs provide services for female and male youths between the age of 10 and 19 years who have demonstrated a need for intensive correctional attendance. The schools care for, train, educate, and rehabilitate youths in need of these services. The primary mission is to address these needs in the most effective and expeditious manner in an effort to return the youth to a noninstitutional environment.

Prior Audit Recommendations

Prior Audit Recommendations

The department was established by the 50th Legislature and began its operations on July 1, 1987. The Legislature re-organized youth and aging services from the Department of Social and Rehabilitation Services and the Department of Institutions. We did not specifically review the status of prior audit recommendations addressed to those departments since our office reviewed them as part of the Department of Social and Rehabilitation Services and the Department of Institutions audits.

We reviewed the status of prior audit recommendations pertaining to MVS and PHS. These recommendations were stated in the MVS and PHS audit reports issued for the two fiscal years ended June 30, 1986. The MVS report contained seven recommendations and the PHS report contained ten recommendations which are still applicable. We determined the status of these recommendations with the following results:

Implemented	Partially Implemented	Not Implemented	Total
13	1	3	17

The recommendations which were not implemented concern reconciling the resident accounts' ledgers to the bank statements monthly, recording the recreation fund activity in the Special Revenue Fund, and recording the cost of land in accordance with state accounting policy. These recommendations are again discussed on pages 5 and 19 of this audit report. The partially implemented prior audit recommendation, which related to PHS inventory controls, was discussed with department management and is not repeated in this report.

Findings and Recommendations

Internal Controls

The department's responsibilities include establishing and maintaining adequate systems of internal controls. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded; and reliable data is obtained, maintained, and disclosed in management reports. Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. However, a good system of internal control reduces the risk of such errors or irregularities.

During our audit we noted weaknesses in the department's control systems over MVS resident account system, completeness of accounting records, data base reconciliation, support for transactions, property, plant and equipment, payroll, and management controls. With the exception of the MVS resident account system, the control weaknesses noted also affect controls over the department's federal funds. The department receives 80 percent of its federal funding from the U.S. Department of Health and Human Services. The majority of this funding relates to the aging program. The remainder of federal funding received by the department is from the U.S. Department of Agriculture and the U.S. Department of Justice. The significant weaknesses we noted and suggestions for strengthening controls are discussed in the following report sections.

MVS Resident Account System

Personnel at MVS take custody of residents' cash upon admittance to the school. MVS has a fiduciary responsibility to ensure all cash received and disbursements made on behalf of residents are properly processed and recorded. MVS maintains the residents' moneys in an approved nontreasury bank account. During fiscal year 1988-89, bank records reflected MVS deposited approximately $26,000 of collections and withdrew approximately $30,000 on behalf of the residents. At June 30, 1989, according to bank records, MVS was accountable for approximately $6,000 of residents' moneys. During our audit,

we noted the following internal control weaknesses over collection and disbursement of these moneys.

- MVS does not comply with state collection and deposit regulations. Section 17-6-105(6), MCA, and state accounting policy require agencies to restrictively endorse checks upon initial receipt, deposit collections daily when coin and currency exceed $100, or total collections exceed $500, and deposit collections intact. In additions, receipts should be written when money is received to help document that all moneys received are deposited. These regulations provide a control to safeguard cash. MVS restrictively endorses checks and issues receipts for checks and cash when a deposit is made. According to bank records, MVS deposited collections approximately once a month with an average deposit of $1,500 during fiscal year 1988-89.

- In addition, MVS does not deposit its collections intact, but withholds cash from the deposit to maintain cash on hand. The cash on hand is used for miscellaneous expenses of residents and MVS. By not depositing all collections, MVS maintains an unauthorized change fund. State accounting policy requires formal written permission for money held outside the state treasury. State accounting policy also states moneys held on behalf of residents may not be used for agency operations.

- MVS's policy requires checks written on the residents' bank account be signed by two authorized individuals. MVS maintains a signature stamp of one of the authorized signers and keeps it in a locked desk drawer. According to MVS personnel, the signature stamp is not intended to be used for authorizing checks. During our audit, we noted the employee responsible for writing checks had a key to the desk drawer and used the signature stamp on four checks totalling $1,425.

- MVS does not have adequate segregation of duties. One employee is responsible for safeguarding cash until deposited, preparing and signing checks to disburse cash from resident accounts, preparing receipts for checks and cash, preparing and making bank deposits, and recording resident account activity. This employee also is responsible for preparing the bank account reconciliation. State accounting policy requires the responsibilities for record keeping, authorization, operations, and custodianship be separated, if feasible. Adequate segregation of duties is important so an employee is not in a position to perpetrate

and conceal errors or irregularities in the normal course of their duties.

- MVS does not reconcile the resident accounts to the bank statements monthly and was unable to reconcile the account to the bank statement at fiscal year-end 1988-89. During the audit we attempted to reconcile the cash on hand and the amount in the bank to the resident account system. We noted deposits made to the bank and checks written which were not posted to the resident account system. State accounting policy requires agencies with cash accounts to adopt internal controls procedures, including monthly reconciliations, to safeguard the assets. We recommended MVS perform monthly reconciliations in our prior audit. Timely reconciliations would provide information to help detect errors or irregularities in the resident accounts.

According to MVS personnel, employees were unfamiliar with state laws and policies governing cash collections and deposits, they needed cash on hand for emergency cash needs of residents and small operating expenses such as postage, and they had a limited number of employees which did not allow for an adequate segregation of duties.

Due to the weaknesses in internal controls described above and inadequate management supervision, we expanded testing and found at least $8,300 was misappropriated from the school. We referred information we gathered to the Attorney General's Office in accordance with section 5-13-304(4), MCA. If MVS had implemented our prior audit recommendation, and had assigned a different employee the duty of performing a monthly reconciliation, the problems could have been detected and resolved by department personnel in a timely manner.

MVS should establish an adequate internal control system which includes, but is not limited to:

1. Complying with state cash collection and deposit laws and policies.

2. Obtaining approval for a cash change fund.

3. Adequately safeguarding the signature stamp.

4. Adequately segregating duties of personnel responsible for resident accounts.

5. Reconciling the resident account system to the bank statement monthly.

6. Ensuring the system is implemented through adequate review and supervision of employee's work.

These controls would enable management personnel to better prevent and detect losses and ensure the completeness and accuracy of its accounting records.

Recommendation #1

We recommend the department establish and implement an adequate internal control system over residents' cash.

Completeness of Accounting Records

The department is responsible for ensuring the completeness and accuracy of its accounting records. During fiscal year 1988-89, the department recorded approximately 72,000 transactions on the Statewide Budgeting and Accounting System (SBAS). The Department of Administration, Accounting Division, provides agencies with a daily report of all transactions recorded on the accounting records. State accounting policy states, ". . . the SBAS daily transaction report should be reconciled with the agency document numbering log. This review should be performed daily and should be documented by a signature and date on the document log." We noted the department does not use the daily report or follow the state policy. As a result, the department does not have a system to ensure all transactions are input, processed, and recorded correctly on SBAS. In addition, it does not ensure all transactions which were recorded on SBAS represent financial activity of the department. Since the department allows the Department of Social and Rehabilitation Services to input daycare payments, authorized by department field employees, on its accounting records, the importance of this review is increased. If the department complied with this

policy, it could help ensure all transactions were input, processed correctly, and represented financial activity of the department.

Department personnel stated they rely on controls at the Accounting Division to ensure documents are properly processed. However, Accounting Division does not provide assurance that all transactions were authorized by the department, were received by the Accounting Division for input or were recorded as intended. Since the department is responsible for all information recorded on its accounting records, it should perform a review to ensure information recorded is authorized, accurate, and complete.

Recommendation #2

We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate, and complete.

Data Base Reconciliation

The department administers the foster care program (CFDA #13.645, 13.652, and 13.658). It uses a data base developed and maintained by the Department of Social and Rehabilitation Services to summarize services provided and payments made on behalf of foster care children. The department recorded on the data base approximately $9 to $9.6 million of foster care benefits paid each fiscal year during the audit period. It updates SBAS weekly for financial activity recorded on the data base. During fiscal years 1987-88 and 1988-89, the department reconciled the data base to SBAS twice. One reconciliation was performed as of the end of February 1988 and the other was performed as of the end of May 1989.

We noted the amounts recorded on the data base did not agree to the amounts recorded on SBAS by $457,974 and $829,974 at fiscal year-end 1987-88 and 1988-89, respectively. According

to department personnel, the differences at fiscal year-end were largely due to the timing of when activity is recorded on each system and the recording of accruals. Since the department did not perform a reconciliation at each fiscal year-end, it could not support the actual differences. State accounting policy requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with Generally Accepted Accounting Principles (GAAP) are recorded on SBAS before fiscal year-end. Therefore, the department should reconcile SBAS to the data base at each fiscal year-end to ensure information recorded on SBAS is complete and accurate.

Recommendation #3

We recommend the department reconcile SBAS and the data base at fiscal year-end to ensure the accuracy and completeness of the state's accounting records.

Support for Transactions

During our testing, we noted several instances where SBAS documents lacked sufficient supporting documentation to adequately explain the basis for transactions recorded on SBAS. These transactions, which totalled approximately $1.3 million, are described as follows.

- The department could not provide support to demonstrate lodging, meal, and phone charges on 6 out of 43 employee travel vouchers tested, as discussed on page 22, were within applicable state travel laws.

- The department could not provide support for numerous journal vouchers. It used these vouchers to correct errors on the accounting records. In addition, we noted the department does not have a system to reference the original document to the subsequent correcting document. Therefore, the department can not efficiently determine if errors on documents were corrected.

- The department's support on various documents did not mathematically agree to amounts entered on the accounting records.

Department personnel could not explain many of the accounting transactions which were not supported. In order to explain other accounting transactions, department personnel spent a substantial amount of time recreating support documentation. If the personnel should terminate employment at the department, new personnel would not be able to explain accounting transactions because the documents do not have support attached.

Every SBAS document should be properly and adequately supported in order to determine the reasonableness and accuracy of the transaction. Without sufficient support documentation, the possibility exists that invalid or incorrect transactions are reported on SBAS.

Recommendation #4

We recommend the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed.

Property, Plant and Equipment

The state maintains a Property Accountability Management System (PAMS). This system is used by agencies to manage and account for fixed assets. According to state policy, the department should record equipment with a unit cost of $1,000 or more on PAMS. In addition, state policy requires the department assign each equipment item a property number and a corresponding property tag. Federal regulations require the department to comply with the established state standards when recording equipment purchased with federal funds.

During our audit, we noted the department does not follow state policy nor does it have a system to account for or safeguard its equipment. We noted the following three specific concerns related to management of equipment by the department.

- The department's central office recorded 198 equipment items transferred from the Department of Social and Rehabilitation Services (SRS) on PAMS, as one property number. The equipment items totalled approximately $142,000.

- The department's central office did not record on PAMS approximately $82,162 and $86,515 of equipment purchases during fiscal year 1987-88 and 1988-89, respectively. Also, it has not recorded deletions for equipment disposed of during the two years.

- The department's central office has not affixed property tags to equipment transferred from SRS or purchased during fiscal years 1987-88 and 1988-89.

According to department personnel, they believed PAMS was automatically updated any time a purchase was coded as an equipment expenditure on SBAS. The department must analyze and decide which items shown on the monthly SBAS listing of equipment expenditures provided by the Department of Administration, Accounting Division, require recording on PAMS. The department then needs to process a transaction to record the equipment on PAMS. The department should establish control procedures to ensure all equipment belonging to the state is tagged for identification and properly recorded on the state's accounting records.

Recommendation #5

We recommend the department establish control procedures to ensure all department equipment is tagged for identification and properly recorded on the state's accounting records.

Payroll

The department's budgeted personal service expenditures were approximately $13 million a year in fiscal years 1987-88 and 1988-89. During our audit, we noted the department's central office does not ensure all time sheets are signed by the employee and approved by the employee's supervisor prior to processing. According to department personnel, they allow employees from the eastern portion of Montana to submit time sheets to the department's central office at the end of the pay period without supervisory approval so the payroll can be processed timely. They further indicated the supervisor approves and submits a time sheet for each employee after the end of the pay period.

We noted the department does not ensure the approved time sheets are received. It also does not compare the approved time sheet to the original time sheet to ensure the hours the employee was paid for were correct. Since a supervisor's approval on the time sheet certifies that the employee actually worked the hours claimed, the department should ensure that paid hours agree to time sheets approved by an employee's supervisor.

We also noted MVS does not have an adequate segregation of duties over payroll processing. One employee is responsible for preparing payroll changes, preparing the prepayroll, and distributing the payroll warrants to employees. Even though this employee does not approve the payroll changes and prepayroll, he/she receives these documents back after they are approved and prior to delivery to the State Auditor's Office for processing. As a result, the potential exists for a preparer to alter the prepayroll after approval and to distribute warrants containing altered or fictitious payroll information. Adequate segregation of duties is important so an employee is not assigned duties that would allow that employee to commit and conceal errors.

Recommendation #6

We recommend the department:

A. Establish procedures to ensure employees' pay is based on time sheets approved by the employee's supervisor.

B. Adequately segregate duties of personnel responsible for processing payroll.

State Compliance

As part of our financial-compliance audits, we evaluate a department's compliance with applicable state laws. Significant issues of noncompliance are included in the audit reports.

We reviewed selected state laws and regulations pertaining to the department. Federal regulations require the department expend federal funds in compliance with state laws. If the department does not comply with state laws, it could affect the allowability of expenditures for federal reimbursement. The cash management and expenditure recording procedures, operating budget, accounting records, travel, administrative cost recovery, and telephone policy sections discussed below affect federal programs the department administers. The department receives its federal funding from departments noted on page 5. The following sections discuss state compliance issues we noted during the audit.

Legislative Appropriation

The legislature appropriates moneys to fund the operation of MVS and PHS. House Bill 2, Laws of 1987, separately appropriated funds to each of the schools. Section 17-8-103(2), MCA, states that "A . . . limitation contained in an appropriation act shall govern the administration and expenditure of the appropriation until the appropriation has been expended for the purpose set forth in the act. . ."

During fiscal year 1988-89, the department was notified of a $21,996 settlement for backwages at PHS. In order to spend within its appropriation limits, the department charged the PHS backwages to a fiscal year 1987-88 MVS General Fund appropriation rather than obtaining a budget amendment. As a result of improperly recording the expenditures, the department's accounting records do not accurately reflect the costs of MVS and PHS.

House Bill 2, Laws of 1987, allows the department to transfer appropriation authority between programs, up to 5 percent of the total department's appropriation during the fiscal year. The department could have transferred appropriation authority from MVS to PHS since it had not reached the 5 percent program transfer limit. The department should have submitted a budget amendment decreasing MVS appropriation authority and increasing PHS appropriation authority. It then could have properly charged the expenditures to the PHS appropriation.

Recommendation #7

We recommend the department obtain budget amendments before transferring appropriation authority between programs to ensure appropriations are spent in compliance with state law.

Cash Management and Expenditure Recording Procedures

The department receives moneys from state, federal, and county governments to fund its programs. Many of the programs it administers are funded by a combination of these sources. At the beginning of each fiscal year, the department establishes a percentage of funding by source on SBAS. When expenditures are recorded on SBAS, the designated sources are charged. During our audit, we noted the department does not initially record the expenditures to the funding source in the percentage each government entity participates.

During fiscal year 1987-88 and 1988-89, we noted the department initially recorded approximately $2 million and $3 million of expenditures, respectively, in the General Fund. The department abated the expenditures from the General Fund and recorded them in the Special Revenue Fund during the May through the fiscal year-end period. As a result, the department used state General Funds to temporarily fund expenditures which were the responsibility of the federal or county governments. Section 17-2-108, MCA, states, "The department shall apply expenditures against non-General Fund money whenever possible before using the General Fund appropriations."

According to department personnel, they recorded the expenditures in the General Fund because of delays in receiving moneys from federal and county governments. State agencies are allowed, under certain circumstances, to obtain inter-entity loans to alleviate temporary cash flow problems. Appropriate use of these loans would allow the department to record the expenditures in the proper fund.

In addition, the department receives the majority of its funds from the U.S. Department of Health and Human Services using a letter of credit. Under the letter of credit agreement, the department may draw funds as the grant costs are incurred. We noted the department, during fiscal year 1987-88, did not request significant federal funds until April 1988. During the months of April and June 1988 the department requested federal funds totalling approximately $5 million. For fiscal year 1988-89, the department requested draws approximately once a month starting in October 1988. These draws ranged from $100,000 to $1.1 million per month. The department should initially record allowable expenditures in the Special Revenue Fund and establish procedures to draw federal funds more frequently.

Department personnel stated they do not know the exact participation percentages for the various funding sources at the start of each fiscal year. However, the federal percentage is based on notification of the Federal Participation Rate at the beginning of each federal fiscal year. In addition, section

41-3-1122, MCA, limits the level of county expenditures for each fiscal year. The department should monitor expenditures and participation agreements throughout the fiscal year and change, if required, the participation percentages as soon as information is available.

Department personnel further stated they recorded the expenditures in the fund where appropriation authority was available. Section 17-7-402, MCA, allows for budget amendments provided specific criteria is met. If federal and county government funding is greater than anticipated, the department should request a budget amendment decreasing its General Fund appropriation and increasing its Special Revenue Fund appropriations. It could then record the expenditures in the proper fund.

In order to allow for proper recording of initial expenditures and alleviate the need for department personnel to record expenditures in the wrong fund, the department should:

1. Establish cash management procedures to draw federal funds as grant costs are incurred.

2. Obtain and use inter-entity loans when a delay in reimbursement occurs.

Recommendation #8

We recommend the department:

A. Establish cash management procedures to allow proper recording of expenditures.

B. Request federal funds on a timely basis.

Operating Budget

According to House Bill 2, Laws of 1987, "Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority." For the executive branch agencies, the governor or his designated representative is the approving authority. House Bill 2 defines substantial compliance as no expenditure category in an approved budget being overspent by more than 5 percent.

Due to changes in the method in which area agencies earn federal funds and in order to spend within its Special Revenue Fund operating budget, the department abated $598,678 of fiscal year 1988-89 aging program expenditures and recorded the expenditures in fiscal year 1989-90. As a result of charging the expenditures to the incorrect fiscal year, the department's accounting records do not accurately reflect the costs of the aging program (CFDA #13.633, 13.635, and 13.668). In addition, had the department charged the expenditures to the correct fiscal year, it would have overspent its fiscal year 1988-89 aging program operating budget by $406,330, or 6 percent.

The department should monitor its spending throughout the fiscal year to identify, as soon as possible, potential budget shortfalls. The sooner the department identifies shortfalls, the easier it is to implement possible solutions. House Bill 2, Laws of 1987, allows the department to amend its operating budgets. Since the department had appropriation authority available in other operating budgets within the same appropriation, it should have requested an operating budget amendment. It could then have charged the expenditures to the proper fiscal year.

Recommendation #9

We recommend the department establish procedures to ensure expenditures do not exceed the approved operating budgets.

Accounting Records

Financial information of the department is used by department officials, budget analysts, and the legislature to manage and establish funding levels for the department. Section 17-1-102(4), MCA, indicates "all state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles." The Department of Administration, Accounting Division, establishes state accounting policies for agencies to follow to ensure information recorded on the state's accounting records complies with GAAP. During our audit, we noted the following instances where the department did not comply with state laws and state accounting policies.

- State accounting policy establishes expenditure classifications which identify the nature of the amounts disbursed. The department should properly and consistently use the expenditure classifications to ensure the accuracy and usefulness of information on the accounting records. We noted several instances in which the department did not use the proper expenditure classification. For example, the department classified $4,523,237 and $5,107,118 of contracts with area agencies in fiscal years 1987-88 and 1988-89, respectively, as aging benefit and claims (CFDA #13.633, 13.635, and 13.668). These expenditures should be classified as grants since the payment is not made directly to an individual.

- The department contracts with another state agency for the storage, handling, ordering, and delivery of USDA food commodities (CFDA #10.550). This activity, amounting to $51,125 and $52,980 for fiscal year 1987-88 and 1988-89, respectively, was inappropriately classified as rent rather than contracted services.

- During fiscal year 1987-88, the department charged approximately $15,000 of travel expenses to Child Abuse and Neglect benefits and claims (CFDA #13.669).

- During fiscal year 1987-88, the department did not establish revenue accruals for foster care benefits and administrative costs incurred by the department which were sub-

sequently recovered through county billings. Because this revenue was earned in fiscal year 1987-88 and the amount could be reasonably estimated, state accounting policy requires the department to accrue it at fiscal year-end. As a result of this error, revenue was understated during fiscal year 1987-88 by approximately $305,000.

- We tested approximately $1 million of the $2 to $2.5 million of revenue accruals the department established for each fiscal year. Department personnel were unable to provide us with adequate information to determine how these revenue accruals were computed. Since the department, does not have procedures to follow in estimating revenue accruals, we were unable to determine if the accruals were reasonable.

- State accounting policy requires agencies to accrue expenditures if a valid obligation exists at fiscal year-end. We noted the department has not established procedures to ensure valid obligations which exist at fiscal year-end are recorded on SBAS. For example, we noted an agreement the department had entered into as of May 1989 in which the department agreed to pay $55,000 for services provided during fiscal years 1987-88 and 1988-89. Since a valid obligation existed as of fiscal year-end, the department should have accrued this expenditure on the state's accounting records.

- State accounting policy requires MVS and PHS to update SBAS at the end of a fiscal year to reflect the balance of the resident accounts. We determined PHS did not include saving accounts totalling $18,851 in its fiscal year 1987-88 SBAS balance. MVS did not update SBAS to agree with its subsystem, which resulted in an understatement on SBAS of $1,191 at fiscal year-end 1988-89. In addition, MVS did not update SBAS for approximately $710 of interest earned during fiscal years 1987-88 and 1988-89 on the resident accounts.

- State accounting policy requires departments to use agency funds to account for moneys held by the state in a trustee capacity. MVS recorded approximately $3,000 of revenues and expenditures related to its recreation moneys in an Agency Fund rather than a Special Revenue Fund. As mentioned in our prior audit, these moneys do not meet the criteria of an Agency Fund.

- As of July 1, 1987, MVS and PHS were required to account for all financial activity under the Department of Family Services' agency number. At June 30, 1989, we noted MVS and PHS still had asset balances of $124,943, $36,690, and $33,755 recorded under the old agency numbers in the General, Special Revenue, and Agency Funds, respectively. In addition, MVS and PHS had liability balances of $10,405 and $27,854 recorded under the old agency numbers in the Special Revenue and Agency Funds, respectively.

- State accounting policy requires agencies to record fixed assets at original cost. If the original cost information is not available, agencies may estimate the original cost of such assets. We noted in this, and the previous two audits, PHS revalued the cost of land on SBAS. Since this revaluation is not in accordance with state accounting policy, we estimated land is overstated by $58,000 at fiscal year-end 1988-89.

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting financial information is affected. Many of these errors resulted from employees' unfamiliarity with state accounting policies, failure to follow state policies, inadequate reviews of accounting documents by authorized individuals, and human error. The department should establish procedures to ensure proper recording of transactions on the state's accounting records. Procedures should include, but are not limited to:

1. Coding expenditures in accordance with state accounting policy.

2. Recording revenue and expenditure accruals at fiscal year-end.

3. Updating SBAS to reflect the balance of residence accounts and land at fiscal year-end.

4. Recording recreation activity in the Special Revenue Fund.

5. Providing training to its personnel.

6. Adequately supervising and reviewing the work of department personnel to ensure errors are minimized and detected in a timely manner.

Recommendation #10

We recommend the department establish procedures to ensure the financial activity on SBAS is in accordance with state laws and state accounting policy.

Travel

The department processes a high volume of travel vouchers submitted by department personnel. During each of fiscal years 1987-88 and 1988-89, the department recorded approximately $600,000 of travel expenses on the accounting records. We reviewed a sample of 43 travel expense vouchers processed by the department during the audit period and noted six instances where reimbursement for meals, lodging, and mileage were not in compliance with state per diem laws. For example, one employee was reimbursed at $37.39 per night and another reimbursed at $28.08 per night for lodging when state law only allows $24.96 per night. We noted another employee was reimbursed $112 for three days of meals when state law allows $14.50 per day. We also noted the department reimbursed an employee 20.5 cents per mile rather than the allowed rate of 22.5 cents per mile for personal vehicle use. We further noted an instance where the department paid for a meal when the employee was not in travel status as defined by state policy. Sections 2-18-501, 2-18-502, and 2-18-503, MCA, provide specific meal and lodging reimbursement rates, the time period an employee must be in a travel status to be eligible for specific meals, and mileage limits which may be claimed. In addition, federal regulations require the department to follow established state laws. Since the instances noted above were reimbursed with federal funds, we question $130 of costs for the Aging Grant (CFDA #13.633).

The majority of the travel expense vouchers are approved by the employee's supervisor and submitted to the central office for payment. The supervisor's signature on these claims verifies that the employee traveled and should be reimbursed. Accord-

ing to department personnel, the central office completes a limited review of travel expense vouchers because of the large number of vouchers submitted monthly. Department personnel believed the extra work involved in completing a more thorough review of vouchers would not be cost beneficial.

The department should establish adequate policies and procedures to ensure travel rates paid to employees are in accordance with state law. Since the field supervisor is required to approve employee travel vouchers, the department could provide the supervisors with documentation of allowable reimbursement rates to require them to review the travel expense vouchers before approving the voucher. This would limit the extent of review required at the central office.

Recommendation #11

We recommend the department establish policies and procedures to ensure travel reimbursements are in accordance with state laws.

Administrative Cost Recovery

Federal regulations allow state agencies reimbursement for indirect costs necessary for the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs of administering federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money required to support federal programs.

The department's central office, MVS and PHS, each negotiate a separate indirect cost rate to recover indirect costs. The department's central office calculates its indirect cost rate by determining the percentage of total indirect costs to personal service expenditures. We noted the department's central office excluded MVS and PHS expenditures in its total indirect cost base. However, the department included MVS and PHS personal

service expenditures in its personal service base. Since MVS and PHS did not include its percentage of related central office indirect costs when negotiating its indirect cost rate, MVS and PHS did not recover indirect costs to the fullest extent possible, in accordance with state law. In the future, the department could:

1. Require MVS and PHS to include its percentage of related central office indirect costs when negotiating its indirect cost rate, or

2. Include all MVS and PHS indirect costs in its indirect cost base and negotiate one indirect cost rate for the department as a whole.

Recommendation #12

We recommend the department recover indirect costs to the fullest extent possible in accordance with state law.

Youth Commitment Expense

Section 53-30-209, MCA, states: "Before a child is committed to Mountain View School, Pine Hills School, or the Department of Family Services, he shall be examined by a licensed physician." Section 53-30-210, MCA, further states, "The expenses of committing a child. . . shall be borne by the county of residence." According to department personnel, MVS and PHS admitted approximately 130 and 380 youths, respectively, during fiscal year 1988-89. Of these youths, approximately 400 were admitted without an examination by a licensed physician. For youths that did not receive a physical prior to admittance, the schools ensure the youths receive an examination by a licensed physician after admittance. PHS subsequently attempts to seek reimbursement from the counties for the examinations. However, MVS does not seek reimbursement from the counties for the costs of the examination.

According to department personnel, the district courts do not always notify the schools prior to the delivery of a youth. Even though the youth may not have received an examination prior to commitment, the schools cannot refuse them. Since the department must accept youths, even without a physical examination, the department should seek legislation to allow the school to admit a youth, and within a reasonable amount of time, provide a physical examination. The department should subsequently bill the counties for costs incurred.

Recommendation #13

We recommend the department:

A. Seek legislation allowing the state to admit youths, and within a reasonable amount of time, provide a physical examination.

B. Seek reimbursement from counties for the costs incurred in providing the physical examination.

Youth Placement Committee

Section 41-5-525, MCA, requires the department to establish youth placement committees (YPC) for the purpose of recommending appropriate placement of youths. Sections 41-5-526(4) and 41-5-527(1), MCA, state the YPC shall recommend in writing to the department an appropriate placement for the youth. Department policy further states that any YPC recommendation shall be signed by a majority of its members. Section 41-5-523(2), MCA, states the department shall determine the appropriate placement, supervision, and rehabilitation program for youth after considering the recommendation of the YPC. In our review of twenty files at each of two regional offices, we noted the following instances where the department did not comply with state law or its policy.

- In two of the files reviewed, the YPC report submitted to the department recommending a placement for the youth was signed by only one committee member.

- In two of the files reviewed, a written YPC recommendation did not exist. In one instance, the youth was placed in PHS by a court. In the other instance, the youth was placed with the department by a court.

- In three of the files reviewed, the youths were placed in facilities without considering the recommendation of the YPC. In the first instance, the court ordered placement to PHS. In the second instance, the youth was placed by the probation officer prior to the YPC recommendation. In the third instance, the department placed the youth without a YPC recommendation.

According to department personnel, the YPC report submitted to the department only contained one committee member's signature because the YPC had problems meeting with the probation officer who had information it required to determine the proper youth placement. Since the YPC had already partially reviewed the case, the YPC chairman signed the report when the information was received.

Department personnel stated the other noncompliance occurred because of human error and because the courts and probation officers place youths without consulting the department. In November 1989, the department sent letters to judges and county attorneys requesting their assistance to comply with state law pertaining to the placement of youths. The department should follow up on the letter and continue to request cooperation.

Recommendation #14

We recommend the department ensure youth placements are made in accordance with state law.

Telephone Policy

State policies establish guidelines for personal use of the state telephone system. These policies allow essential personal calls with certain restrictions. The policies state long distance personal calls must be either collect, charged to a third party nonstate number, or charged to a personal credit card. The policies further state each agency is responsible for enforcing policies related to the use of the state's telephone.

During our audit, we noted the department is not adhering to state policies. Contrary to state policy, the department allows staff to make personal long distance calls on the state telephone system by charging the call to the department and later reimbursing the department for the call. During our review of travel expense vouchers, we noted three instances where the department reimbursed employees for long distance calls without adequate support indicating the call was business related. The department should establish and enforce a policy addressing employee use of the state telephone system.

Recommendation #15

We recommend the department implement and enforce state policy concerning employee use of the state telephone system.

Federal Financial Reports

The federal government requires state agencies to periodically report the financial status of grants received by the state. Federal regulations require the recipient of the grants to ensure the financial status reports contain reliable financial data. During our review of the federal fiscal year 1987-88 aging report (CFDA #13.633, 13.635, and 13.668) submitted by the department, we noted the expenditures reported did not agree to SBAS. The following is a schedule of differences noted in the amounts reported for the federal share of expenditures.

Aging Grants	Federal Report	SBAS	Difference
Title IIIB	$1,162,598	$1,281,155	$(118,557)
Title IIIC1	1,312,297	1,620,090	(307,793)
Title IIIC2	538,665	392,968	145,697
Title IIID	22,751	22,493	258

Department personnel were unable to account for the differences. Since federal regulations require financial reports submitted be complete and accurate and SBAS has been designated as the state's accounting system, the department should ensure the amounts reported to the federal government are reconciled to SBAS.

Recommendation #16

We recommend the department ensure amounts reported on the federal financial reports reconcile to the accounting records.

Management Controls

Primary functions of management include organizing, directing, and controlling the activities of an entity in order to accomplish the objectives of the entity. The methods management adopts to carry out these functions constitute the management control system. The previous sixteen report sections discuss areas where management could improve its direction and control of staff activities. For example, the department did not establish adequate internal controls over the MVS resident account system. As a result, we could not issue an opinion on the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for MVS and at least $8,300 was misappropriated from the school. In addition, the department did not ensure activity recorded on the accounting records was complete and accurate and it did not comply with various state and federal laws and policies. As a result, we issued a qualified opinion on the department's financial schedules shown on pages 35 through 38.

When the department was created by the 50th Legislature, start up problems were inherent. Some of the problems we noted can be attributed to the newness of the department. However, many of the problems we noted occurred because department personnel did not have adequate training regarding laws and accounting policies. In addition, key accounting personnel did not provide adequate supervision and guidance to employees and did not thoroughly review transactions recorded on the state's accounting records.

The recommendations made in the previous sixteen report sections would, if implemented, improve department operations. In addition to these recommendations, we noted a need for increased awareness and knowledge by management in order to ensure management controls are adequate. Some additional steps management should consider taking to further improve operations include:

1. Providing additional training to its employees.
2. Providing more supervision and review of its employee's work.

The department should consider all aspects of its operations when evaluating and revising procedures.

Recommendation #17

We recommend the department:

A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies.

B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We included paragraph four in the Independent Auditor's Report to disclaim our opinion on the Mountain View School Schedule of Additions and Deductions to Agency Fund Property Held in Trust because the school did not have adequate internal controls over its property held in trust. The reader should not rely on the financial information in this schedule.

We included paragraphs five through seven in the Independent Auditor's Report to qualify our opinion on the Schedule of Changes in Fund Balances, the Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, and the Schedules of Budgeted Program Expenditures and Transfers Out By Object and Fund because the department did not properly classify expenditures, accrue revenue, or record expenditures in the proper fiscal year. The reader should use caution when using the financial information in these schedules.

The unqualified opinion on the remaining schedules indicates the schedules are fairly stated in all material respects and the user can rely on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Family Services, for each of the two years ended June 30, 1988 and 1989, as shown on pages 35 through 43. The information contained in these schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

Except as explained in paragraph four, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

The department did not have adequate internal controls over property held in trust at Mountain View School during fiscal years 1987-88 and 1988-89. As a result, we were unable to determine the reasonableness of amounts recorded as additions, deductions, and the June 30, 1989 balances for property held in trust.

The department did not properly classify contracts with area agencies. As a result, community services benefit and claim expenditures are overstated and community services grant expenditures are understated in the Special Revenue Fund by $4,523,237 and $5,107,118 in fiscal years 1987-88 and 1988-89, respectively.

Due to the department's revenue accrual procedures, federal revenue is overstated and service fee revenue is understated in the Special Revenue Fund during fiscal year 1987-88 by $1,196,358 and $305,146, respectively. In addition, fiscal year 1988-89 federal revenue is understated by $819,874, service fee revenue is overstated by $305,146 and prior year revenue adjustments is understated by $376,484.

The department incorrectly recorded fiscal year 1988-89 benefit and claim expenditures in fiscal year 1989-90. As a result, fiscal year 1988-89 community service expenditures are understated by $598,678 and the June 30, 1989 fund balance is overstated by $598,678 in the Special Revenue Fund.

Because of the matter discussed in paragraph four, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for Mountain View School, for the two fiscal years ended June 30, 1989.

In our opinion, except for the effects of the matter discussed in paragraphs five through seven, the Schedule of Changes in Fund Balances, Schedule of Budgeted Revenue and Transfers In - Estimate and Actual, and the Schedules of Budgeted Program Expenditures and Transfers Out By Object and Fund present fairly the results of operations and the changes in fund balances of the Department of Family Services, for the two fiscal years ended June 30, 1989, in conformity with the basis of accounting described in Note 1.

In our opinion, the Schedule of Additions and Deductions to Agency Fund Property Held in Trust for the Children Trust Accounts and for Pine Hills School present fairly, in all material respects, the results of operations of the Department of Family Services for the two fiscal years ended June 30, 1989, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

February 20, 1990

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	General Fund	Special Revenue Funds
FUND BALANCE: July 1, 1987	$ -0-	$ 137,630
ADDITIONS:		
Fiscal Year 1987-88		
Budgeted Revenue & Transfers In	92,169	11,062,297
Nonbudgeted Revenue & Transfers In	9	
Prior Year Revenue Adjustments	3	
Support From State of Montana	19,480,770	
Cash Transfers In		73,785
Prior Year Expenditure Adjustments		171
Direct Entries to Fund Balance	21,283	2
Fiscal Year 1988-89		
Budgeted Revenue & Transfers In	99,487	13,304,466
Nonbudgeted Revenue & Transfers In	231	
Prior Year Revenue Adjustments	86	747,115
Prior Year Expenditure Adjustments	8,367	170,048
Support From State of Montana	19,692,448	
Cash Transfers In		69,226
Total Additions	39,394,853	25,427,110
REDUCTIONS:		
Fiscal Year 1987-88		
Budgeted Expenditures & Transfers Out	19,570,214	11,312,719
Prior Year Expenditure Adjustments	24,020	
Prior Year Revenue Adjustments		2,000
Fiscal Year 1988-89		
Budgeted Expenditures & Transfers Out	19,780,337	12,039,143
Direct Entries to Fund Balance	20,282	207,110
Total Reductions	39,394,853	23,560,972
FUND BALANCE: June 30, 1989	$ -0-	$ 2,003,768

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 42 and 43.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 19

	Licenses and Permits	Charges For Services	Investment Earnings	Sale of Documents & Merchandise	Rentals, Leases & Royalties	Fines & Forfeits
Fiscal Year 1988-89						
GENERAL FUND						
Estimated Revenue	$135,000	$ 50	$ 36	$ 10	$2,400	
Actual Revenue	96,985	65	37	0	2,400	
Collections Over						
(Under) Estimate	$(38,015)	$ 15	$ 1	$ (10)	$ 0	
SPECIAL REVENUE FUND						
Estimated Revenue		$2,100,000	$ 2,800	$ 37,982		$ 20,000
Actual Revenue		1,863,779	55	20,943		8,512
Collections Over						
(Under) Estimate		$ (236,221)	$(2,745)	$(17,039)		$(11,488)
Fiscal Year 1987-88						
GENERAL FUND						
Estimated Revenue	$135,000	$ 50	$ 36	$ 10	$2,400	
Actual Revenue	89,868	72	29	0	2,200	
Collections Over						
(Under) Estimate	$(45,132)	$ 22	$ (7)	$ (10)	$ (200)	
SPECIAL REVENUE FUND						
Estimated Revenue		$2,100,000	$ 4,000	$ 37,982		$20,000
Actual Revenue		1,562,062	1,057	21,592		10,595
Collections Over						
(Under) Estimate		$ (537,938)	$(2,943)	$(16,390)		$(9,405)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information pages 42 and 43.

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Miscellaneous	Grants, Contracts, Donations	Other Financing Sources	Federal	Total
				$ 137,496
				99,487
				$ (38,009)
$ 53,000	$16,500	$356,000	$ 8,281,266	$10,867,548
24,863	10,572	269,785	11,105,957	13,304,466
$(28,137)	$(5,928)	$(86,215)	$ 2,824,691	$ 2,436,918
				$ 137,496
				92,169
				$ (45,327)
$ 53,000	$ 44,000	$300,000	$8,808,270	$11,367,252
23,930	10,946	257,049	9,175,066	11,062,297
$(29,070)	$(33,054)	$(42,951)	$ 366,796	$ (304,955)

is provided in the notes to the financial schedules on

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Management Support	Community Services	Mountain View	Pine Hills	Total
PERSONAL SERVICES					
Salaries	$1,053,169	$ 6,159,131	$1,168,082	$2,185,517	$10,565,899
Hourly Wages			12,407	1,054	13,461
Employee Benefits	216,445	1,378,092	321,782	591,772	2,508,091
Total	1,269,614	7,537,223	1,502,271	2,778,343	13,087,451
OPERATING EXPENSES					
Contracted Services	298,750	77,948	72,667	105,430	554,795
Supplies & Materials	31,882	69,951	136,404	223,208	461,445
Communications	70,863	144,112	19,062	37,187	271,224
Travel	112,760	490,881	6,304	11,255	621,200
Rent	105,842	125,938	2,153	4,517	238,450
Utilities		4,672	51,840	182,136	238,648
Repair & Maintenance	1,804	9,001	31,852	43,917	86,574
Other Expenses	25,112	36,205	10,685	14,899	86,901
Goods Purchased For Resale	28		2,172	18,312	20,512
Total	647,041	958,708	333,139	640,861	2,579,749
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	17,119	68,503	24,148	19,652	129,422
Intangible Assets	893		2,708	300	3,901
Total	18,012	68,503	26,856	19,952	133,323
BENEFITS & CLAIMS					
To Individuals		15,867,506			15,867,506
From Federal Sources		64,075			64,075
Insurance Payments		42,281		1,000	43,281
Total		15,973,862		1,000	15,974,862
TRANSFERS					
Accounting Entity Transfers		44,095			44,095
Total		44,095			44,095
TOTAL PROGRAM EXPENDITURES	$1,934,667	$24,582,391	$1,862,266	$3,440,156	$31,819,480
GENERAL FUND					
Budgeted	$1,782,887	$13,779,710	$1,754,691	$2,848,058	$20,165,346
Actual	1,756,509	13,461,287	1,740,864	2,821,677	19,780,337
Unspent Budget Authority	$ 26,378	$ 318,423	$ 13,827	$ 26,381	$ 385,009
SPECIAL REVENUE FUND					
Budgeted	$ 207,055	$11,605,385	$ 180,138	$ 659,941	$12,652,519
Actual	178,158	11,121,104	121,402	618,479	12,039,143
Unspent Budget Authority	$ 28,897	$ 484,281	$ 58,736	$ 41,462	$ 613,376

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 42 and 43.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	Management Support	Community Services	Mountain View	Pine Hills	Total
PERSONAL SERVICES					
Salaries	$1,018,089	$ 6,021,457	$1,124,149	$2,182,288	$10,345,983
Hourly Wages	29		6,901		6,930
Employee Benefits	207,119	1,367,873	317,949	599,662	2,492,603
Total	1,225,237	7,389,330	1,448,999	2,781,950	12,845,516
OPERATING EXPENSES					
Contracted Services	306,913	121,023	52,881	99,102	579,919
Supplies & Materials	31,873	109,551	109,811	227,152	478,387
Communications	64,987	124,526	16,717	35,790	242,020
Travel	84,115	483,383	4,007	8,716	580,221
Rent	108,710	139,490	847	1,249	250,296
Utilities	122	12,222	46,057	193,971	252,372
Repair & Maintenance	11,626	13,556	36,332	37,851	99,365
Other Expenses	31,245	18,497	9,649	14,700	74,091
Goods Purchased For Resale			1,438	17,502	18,940
Total	639,591	1,022,248	277,739	636,033	2,575,611
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	46,057	36,105	21,413	18,247	121,822
Total	46,057	36,105	21,413	18,247	121,822
BENEFITS & CLAIMS					
To Individuals		15,328,551			15,328,551
From Federal Sources		6,530			6,530
Total		15,335,081			15,335,081
TRANSFERS					
Accounting Entity Transfers		4,903			4,903
Total		4,903			4,903
TOTAL PROGRAM EXPENDITURES	$1,910,885	$23,787,667	$1,748,151	$3,436,230	$30,882,933
GENERAL FUND					
Budgeted	$1,177,888	$13,968,878	$1,674,368	$2,857,944	$19,679,078
Actual	1,146,426	13,937,567	1,631,685	2,854,536	19,570,214
Unspent Budget Authority	$ 31,462	$ 31,311	$ 42,683	$ 3,408	$ 108,864
SPECIAL REVENUE FUND					
Budgeted	$ 784,934	$10,135,121	$ 130,842	$ 610,666	$11,661,563
Actual	764,459	9,850,100	116,466	581,694	11,312,719
Unspent Budget Authority	$ 20,475	$ 285,021	$ 14,376	$ 28,972	$ 348,844

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 42 and 43.

DEPARTMENT OF FAMILY SERVICES
CHILDREN TRUST ACCOUNTS
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	Children Trust Account
Property Held in Trust, July 1, 1987	$ 109,224
ADDITIONS:	
Fiscal Year 1987-88	979,394
Fiscal Year 1988-89	814,293
Total Additions	1,793,687
DEDUCTIONS:	
Fiscal Year 1987-88	903,104
Fiscal Year 1988-89	790,692
Total Deductions	1,693,796
Property Held in Trust, June 30, 1989	$ 209,115

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 42 and 43.

DEPARTMENT OF FAMILY SERVICES
MOUNTAIN VIEW SCHOOL
SCHEDULE OF ADDITIONS AND DEDUCTIONS
TO AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	Resident Trust Account
Property Held in Trust, July 1, 1987	$16,076
ADDITIONS:	
Fiscal Year 1987-88	49,358
Fiscal Year 1988-89	32,443
Total Additions	81,801
DEDUCTIONS:	
Fiscal Year 1987-88	55,259
Fiscal Year 1988-89	31,251
Total Deductions	86,510
Property Held in Trust, June 30, 1989	$11,367

The transaction detail for activity in the Agency Fund is not recorded on the Statewide Budgeting and Accounting System (SBAS); therefore the totals for additions and deductions were compiled from the subsidiary records. Additional information is provided in the notes to the financial schedules on pages 42 and 43. The amounts listed above do not tie to SBAS.

DEPARTMENT OF FAMILY SERVICES
PINE HILLS SCHOOL
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND PROPERTY HELD IN TRUST FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	Resident Trust Account
Property Held in Trust, July 1, 1987	$ 19,071
ADDITIONS:	
Fiscal Year 1987-88	117,501
Fiscal Year 1988-89	91,480
Total Additions	208,981
DEDUCTIONS:	
Fiscal Year 1987-88	88,430
Fiscal Year 1988-89	91,963
Total Deductions	180,393
Property Held in Trust, June 30, 1989	$ 47,659

The transaction detail for activity in the Agency Fund is not recorded on the Statewide Budgeting and Accounting System (SBAS); therefore the totals for additions and deductions were compiled from the subsidiary records. Additional information is provided in the notes to the financial schedules on pages 42 and 43.

MONTANA DEPARTMENT OF FAMILY SERVICES

NOTES TO FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Department of Family Services uses the modified accrual basis of accounting for Governmental and Fiduciary Funds, which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, expenditures are recorded for valid obligations. A valid obligation exists when the related liability is incurred. The following items are considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.
- The anticipated cost of equipment is expended in the fiscal year in which a purchase order is issued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay liabilities of the current period.

B. Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment, except for the Schedules of Additions and Deductions to Agency Fund Property Held in Trust for Mountain View and Pine Hills Schools which have been prepared from the school's subsidiary detail records. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, county foster care assistance, and canteen activity. Legislative appropriations are required to spend from these funds.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the department in a trustee capacity or as an agent for individuals. The major item accounted for in these funds by the department are the children trust and resident accounts. A legislative appropriation is not required to spend these funds.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1989, the department had an approximate liability of $911,000 for annual leave and $419,000 for sick leave.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The department's contribution to these plans was $666,377 in fiscal year 1987-88 and $691,221 in fiscal year 1988-89.

4. General Fund Balance

The General Fund is a single account with one statewide fund balance. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

Agency Response

DEPARTMENT OF FAMILY SERVICES

STAN STEPHENS, GOVERNOR

(406) 444-5900

STATE OF MONTANA

P.O. BOX 8005
HELENA, MONTANA 59604

May 4, 1990

Mr. Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is the agency response to the Financial Compliance Audit of the Department of Family Services. We appreciate the effort and professionalism shown by your staff during this process. The recommendations will be very helpful in the Department's effort to improve services to Montana's youth.

Department staff will be available to discuss the report and recommendations at the May 19, 2990 meeting of the Legislative Audit Committee.

Sincerely,

Hank Hudson

Hank Hudson,
Acting Director

enclosure

Recommendation #1: **We recommend the department establish and implement an adequate internal control system over residents' cash.**

Agency Response: We concur with the recommendation. Mountain View School agrees with the numerous recommendations the Audit Team has made in reference to adequate internal controls. This recommendation was a prior audit recommendation: after the last audit, monthly reconciliation was instituted. From the end of the last audit period until the beginning of this audit period span Mountain View School had four different business managers. For six of these months, the institution's Superintendent acted in the capacity of business manager in order to create the mandated vacancy savings. Due to a lack of written procedures regarding internal control over residents' cash, the reconciliation process was not continued on a regular basis. These written procedures have been developed and implemented, and will be available for a new business manager should turnover again occur.

Mountain View School is currently doing monthly reconciliations of all bank accounts.

Recommendation #2: **We recommend the department review the daily transaction listing to ensure information recorded on SBAS is authorized, accurate, and complete.**

Agency Response: We concur with the recommendation. By July 1, 1990, the Department will implement procedures to use the daily transaction listings to verify the information recorded in SBAS.

Recommendation #3: **We recommend the department reconcile SBAS and the data base at fiscal year-end to ensure the accuracy and completeness of the state's accounting records.**

Agency Response: We concur with the recommendation. As mentioned in the report, the main problem with providing a total reconciliation between the data base system and SBAS is the timing differences in when and how the information is recorded on each system. As an example, Fiscal Year 1989-1990 year-end reconciliation was completed using October 1989 data base information. To help ensure the accuracy of the fiscal year-end SBAS information, the Department will establish procedures to provide an interim reconciliation for fiscal year-end and a final reconciliation in a timely manner after the year-end activity is recorded in data base.

Recommendation #4: **We recommend the department establish procedures to ensure adequate written support documentation exists for all accounting transactions processed.**

Agency Response: We concur with the recommendation. The Department agrees that adequate and complete documentation must be

available to support all accounting activity. We have implemented procedures to ensure that the support documentation will be attached to all transactions.

Recommendation #5: **We recommend the department establish control procedures to ensure all department equipment is tagged for identification and properly recorded on the state's accounting records.**

Agency Response: We concur with the recommendation. With the staff available, the property control function has had a lower priority than other administrative functions. The Department will implement procedures to identify equipment items, assign property numbers, tag appropriate equipment and update the PAMS system. It is expected that this can be completed by January 1, 1991.

Recommendation #6: **We recommend that the department:**

A. Establish procedures to ensure employees' pay is based on time sheets approved by the employee's supervisor.

B. Adequately segregate duties of personnel responsible for processing payroll.

Agency Response: A. We concur with the recommendation. Due to the large number and varied locations of our field staff and supervisors, it has not always been possible to receive a timesheet for each employee prior to the payroll submission deadline. Since the implementation of the on-line entry system for payroll, the receiving of approved timesheets has become less of a problem. If it is still necessary to use a copy of a timesheet for payroll submission, Department procedures require that the approved timesheet be compared with and attached to the copy to ensure that the employee's payroll was correct.

Agency Response: B. We concur with the recommendation. Mountain View has two positions in the business department, a business manager and a payroll tech. We have established written criteria that currently meets the recommendations made in this audit.

Recommendation #7: **We recommend the department obtain budget amendments before transferring appropriation authority between programs to ensure appropriations are spent in compliance with state law.**

Agency Response: We concur with the recommendation. Due to a misunderstanding on the part of department personnel, we did not think it was possible to transfer appropriation authority between programs for prior years. As we were within the 5 percent program transfer limit, we recorded the prior year expenditure to the MVS appropriation instead of requesting the budget transfer.

Department personnel are now aware of the proper procedure and all future transfers will be done within policy.

Recommendation #8: **We recommend the department:**

A. Establish cash management procedures to allow proper recording of expenditures.

B. Request federal funds on a timely basis.

Agency Response: A. We concur with the recommendation. While it is true that we are aware of the federal participation percentages for the various funding sources at the start of each fiscal year, we are not aware of the exact amounts we may collect from each source. The exact sources for the majority of federal funds recovered are determined quarterly by a random-moment time study process (RMTS). The RMTS provides a percentage rate by which the Department distributes its field staff administrative costs to individual federal programs. This percentage rate changes quarterly depending on how the field staff activities are compiled by the RMTS. Because of this process, it is not possible to establish an "exact" rate for federal funds available for department administrative costs. To adapt to this in a simple and efficient manner, we have tried to implement a process by which we periodically review our actual collections of non-state funds and adjust the expenditures on SBAS to reflect the collections. This was not always done in a timely manner during the audit period, which resulted in some expenditures being charged to the wrong funds for a period of time. Adjustments were made by fiscal year-end to match, in total, the federal funds available and the SBAS expenditures. The Department will review its current procedures and implement, for fiscal year 1991, new procedures to ensure that expenditures will be made to the proper funds on a timely basis which would limit the number of funding adjustments that would have to be made during the year.

Agency Response: B. We concur with the recommendation. The problems encountered with receiving federal funds during fiscal year 1988 were the result of starting up a new agency. These problems were resolved by the end of fiscal year 1988. Currently, we are drawing field funds on a current basis and, for fiscal year 1991, we will establish written guidelines by which we will request funds.

Recommendation #9 **We recommend the department establish procedures to ensure expenditures do not exceed the approved operating budgets.**

Agency Response: We concur with the recommendation. Due to a change in federal regulations, the area agencies on aging were allowed to earn federal funds faster than they had previously. This meant that during fiscal year 1989 they earned federal funds

that were actually budgeted in fiscal year 1990. As federal regulations allowed this and the area agencies had already spent the funds, the Department reimbursed them and recorded it as an advance during Fiscal Year 1989. To avoid this situation in Fiscal Year 1990 and future years, we are working with the Office of Budget and Program Planning to obtain a supplemental appropriation for this year. This will be completed by June 30, 1990.

Recommendation #10: **We recommend the department establish procedures to ensure the financial activity on SBAS is in accordance with state laws and state accounting policy.**

Agency Response: We concur with the recommendation. Many of the errors in expenditures classification were the result of inherent start-up problems and staff turnover during the audit period. To ensure the consistency and reliability of its SBAS information, the Department will prepare written procedures for classifying expenditures for all programs and operations. The procedures will also address the methods to be used for preparing revenue and expenditure accruals.

The Department was not aware that the classifying of the payments to the area agencies as benefits and claims was not proper. This was the procedure that had been used for many years and was the classification used for the biennium budget request. We are currently working with the Governor's Office of Budget and Program Planning to make the proper adjustments for both the current biennium and the new biennium request.

As part of the new internal controls and monthly reconciliation of the custodian cash account at MVS, the SBAS updates will occur monthly, and interest earned by the account will be allocated monthly when the new resident-accounting subsystem programming is fully completed. All non-custodian cash activities are currently being recorded in the State Special Revenue Fund. All MVS and PHS financial activity will be recorded in SBAS under the Department of Family Services by Fiscal 1990 end.

PHS will review the cost information available for their fixed assets and, by fiscal year-end, adjust the amount on SBAS to be in accordance with state accounting policy.

Recommendation #11: **We recommend the department establish policies and procedures to ensure travel reimbursements are in accordance with state laws.**

Agency Response: We concur with the recommendation. As mentioned in the report, most of the travel vouchers are approved by field staff supervisors. To improve this review and approval process, the Department will: (1) provide all staff with current state policies on travel reimbursement; (2) provide staff with written Department procedures and policies for review and approval of

travel vouchers; and (3) include training on travel policies at future supervisor training sessions. Written travel review procedures and policies will be completed by June 30, 1990.

Recommendation #12: **We recommend the department recover indirect costs to the fullest extent possible in accordance with state law.**

Agency Response: We concur with the recommendation. Future indirect cost proposals for MVS and PHS will include their respective share of central office indirect costs as determined by the current indirect cost plan. This should ensure that all eligible department indirect costs are charged to federal programs.

Recommendation #13: **We recommend the department:**

A. **Seek legislation allowing the state to admit youths, and within a reasonable amount of time, provide a physical examination.**

B. **Seek reimbursement from counties for the costs incurred in providing the physical examination.**

Agency Response: A. We concur that, currently, it is not always possible for PHS and MVS to comply with Section 53-30-209, MCA, which requires an examination by a licensed physician before a child may be committed. The Department will pursue clarifying the need and requirement for physical examinations for youth committed to the institutions. This may result in seeking legislative action or adopting administrative rules.

Agency Response: B. We concur with the recommendation. MVS will implement procedures to seek reimbursement from counties for costs incurred in providing physical examinations.

Recommendation #14: **We recommend the department ensure youth placements are made in accordance with state law.**

Agency Response: We concur with the recommendation. The current Department legislative proposals for the next session include one on the youth court act. For this proposal, we will be considering both minor and major changes that would improve the disposition of and services to youths in need of supervision and delinquent youth. In lieu of any major changes proposed for the youth placement committee process, the Department will pursue administrative rule changes and committee member training to make the process more responsive to the needs of both the committee and the Department.

Recommendation #15: **We recommend the department implement and enforce state policy concerning employee use of the state telephone system.**

Agency Response: We concur with the recommendation. We have previously circulated state policy on telephone use to Department employees, but we have not formally adopted Department policy or procedures regarding telephone usage and administrative review of telephone usage. This will be done by September 30, 1990.

Recommendation #16: **We recommend the department ensure amounts reported on the federal financial reports reconcile to the accounting records.**

Agency Response: We concur with the recommendation. The Aging Services Bureau is responsible to prepare accurate financial reports to the Administration of Aging quarterly. These reports are based upon various reports received from the 11 Area Agencies on Aging across the state and show the actual expenditures of the Area Agencies on Aging and not the amount recorded on SBAS as being sent to the Area Agencies. Because the guidelines from the federal agency emphasize the need for reports to be sent in on time and that an estimate of expenditures can be used until better data is available, some quarterly reports may include estimates of Area Agency expenditures. Final federal fiscal year reports (ending September 30) are adjusted to reflect actual expenditures that were estimated in previous quarterly reports. The final federal fiscal year-end reports from the Area Agencies will be reconciled to SBAS to ensure that the federal reports and SBAS information is accurate.

Recommendation #17: **We recommend the department:**

A. Provide training to personnel at all levels to enhance compliance with state and federal laws and policies.

B. Adequately supervise and review department personnel's work to ensure errors are minimized and detected in a timely manner.

Agency Response: We concur with the recommendation. As mentioned in previous agency responses to recommendations, the Department will be developing more written policies and procedures regarding its administrative operations. We feel that the implementation of these policies and procedures will do much to increase both the efficiency of department operations and the accuracy of its financial activity. To enhance the level of expertise for our employees, the department will also participate, as much as possible, in both state and federal sponsored training sessions.